CALIFORNIA MEDICAL ASSISTANCE COMMISSION
770 L STREET, SUITE 1000
SACRAMENTO, CA 95814
(916) 324-2726
(916) 324-5597 FAX
http://www.cmac.ca.gov

CALIFORNIA MEDICAL ASSISTANCE COMMISSION

State Capitol, Room 113
Sacramento, CA

Minutes of Meeting
March 27, 2008

COMMISSIONERS PRESENT
Cathie Bennett Warner
Michele Burton, M.P.H.
Wilma Chan
Nancy McFadden
John Longville

COMMISSIONERS ABSENT
Vicki Marti

CMAC STAFF PRESENT
J. Keith Berger, Executive Director
Tacia Carroll
Paul Cerles
Denise DeTrano
Holland Golec
Mark Kloberdanz
Katie Knudson
Becky Swol
Mike Tagupa
Mervin Tamai
Karen Thalhammer

EX-OFFICIO MEMBERS PRESENT
Toby Douglas, Department of Health Care Services
John Fitzpatrick II, Department of Finance

EX-OFFICIO MEMBERS ABSENT

I. Call to Order

The March 27, 2008 open session meeting of the California Medical Assistance Commission (CMAC) was called to order by Chair Cathie Bennett Warner. A quorum was present.

II. Approval of Minutes

The March 13, 2008 meeting minutes were approved as prepared by CMAC staff.

III. Executive Director's Report

Keith Berger, Executive Director, began his report by reminding attendees from the public that CMAC's current meeting schedule goes through June of this year, and at the previous meeting, the Commissioners approved scheduled dates for CMAC meetings for the next fiscal year, July 2008 through June 2009.

He noted that both schedules are available on the CMAC website and hard copies are available today and at future meetings along with other public materials.

Mr. Berger informed the Commissioners that the California Children's Hospital Association (CCHA) would be making a presentation in today's open session. He said they have asked to appear before CMAC to provide an update on the current issues and challenges facing the children's hospitals in California. CMAC is aware of the important role the children's hospitals play in providing healthcare services to Medi-Cal kids and always welcomes the opportunity to hear how they are doing.

As Mr. Berger reported at the last several meetings, CMAC had to extend its Distressed Hospital Fund (DHF) process to allow time for a full assessment, discussion and negotiation of the many proposals CMAC received. The revised schedule has targeted today's meeting for decisions by CMAC on the DHF amendments. CMAC hopes to keep that revised schedule. Mr. Berger noted that CMAC has another extended discussion planned for today's closed session as CMAC attempts to bring the first component of this year's DHF process to a successful conclusion.

Mr. Berger indicated that there is a very full closed session agenda, including 51 managed care and hospital contracts and amendments before the Commissioners for review and action as well as a number of updates and discussions regarding current hospital and managed care negotiations.

IV. Department of Health Care Services (DHCS) Report

Toby Douglas, DHCS, reported that DHCS has received approval from Centers for Medicare & Medicaid Services (CMS) to ensure funding from the federal government relating to the 2005 Health Coverage Initiative, which is part of the hospital financing waiver. This will allow designated public hospitals to claim significant amounts of federal dollars for physician-based services in a hospital setting.

Mr. Douglas noted that this authorization also releases general fund dollars that the State had allocated to the hospitals to pay for interim per diem rates from past years. This is great news for the hospitals and the state.

Mr. Douglas indicated that all ten counties participating in local programs through the 2005 Health Coverage Initiative, have enrolled approximately 31,000 individuals. He noted that enrollment is still much lower than expected due to difficulties with citizenship

documentation requirements. DHCS is hopeful that the counties will increase enrollment and maximize the federal funding available under this initiative.

Regarding last year's SB 474 which re-designated safety net care pool funding to Los Angeles County after the closure of Martin Luther King- Harbor Hospital (authored by Sheila Kuehl), Mr. Douglas informed CMAC that impacted hospitals (California Hospital Medical Center, Centinela Freeman Regional Medical Center, Downey Regional Medical Center, Lakewood Regional Medical Center, Memorial Hospital of Gardena, St. Francis Medical Center and White Memorial Medical Center) have each received a portion of the $5 million that was set aside for a Los Angeles County intergovernmental transfer.

V. Appearance by California Children's Hospital Association

The California Children's Hospital Association's (CCHA) President and CEO, Diana Dooley, provided an overview of the general activities, challenges and issues faced by children's hospitals during the past year.

Mr. Berger noted that he appreciated Ms. Dooley's presentation and said that CMAC has always been supportive of children's hospitals and will do their best to recognize CCHA's needs, noting however that the State is faced with budget limitations.

In response to a question asked by Commissioner McFadden, Ms. Dooley explained the out-patient care cost issues facing children's hospitals.

The attached material provided by CCHA offers more detail regarding the CCHA's presentation.

VI. New Business/Public Comments/Adjournment

There being no further new business and no comments from the public, Chair Bennett Warner recessed the open session. Chair Bennett Warner opened the closed session, and after closed session items were addressed, adjourned the closed session, at which time the Commission reconvened in open session. Chair Bennett Warner announced that the Commission had taken action on hospital and managed care contracts and amendments in closed session. The open session was then adjourned.

California Children's Hospital Association

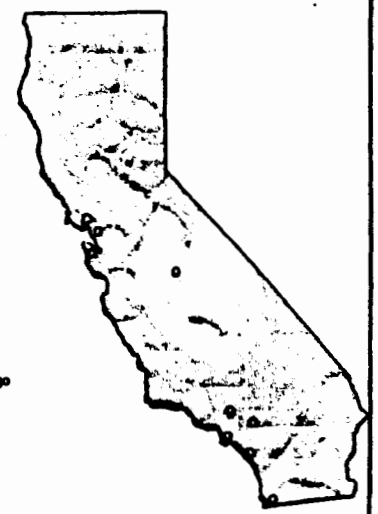
Protecting the Pediatric Safety Net in 2008

Presentation to
California Medical Assistance Commission

David S. Dooley, President & CEO
California Children's Hospital Association
March 27, 2008

California's Network of Regional, Non-Profit Children's Hospitals

Children's Hospital & Research Center, Oakland
Lucile Packard Children's Hospital, Palo Alto
Children's Hospital Central California, Madera
Childrens Hospital Los Angeles
Loma Linda University Children's Hospital
Miller Children's Hospital, Long Beach
Children's Hospital Orange County
Rady Children's Hospital & Health Center, San Diego



Children's Hospitals: Our Work

- Provide comprehensive and resource intensive services to the State's sickest and most vulnerable children. *Children's Hospital of Orange County treats almost 80% of all children with cancer in the county*
- Train future pediatricians and specialty care providers, providing graduate medical training for more than 650 full-time residents. *Childrens Hospital Los Angeles trains more than 216 residents annually*
- Conduct critically important pediatric medical research. *Children's Hospital and Research Institute Oakland is in the top 10 pediatric research institutes and children's hospitals in the country for NIH funding*

Children's Hospitals: The Pediatric Safety Net

- **Highly** dependent on government support -- on average, Medi-Cal is the payer for 50% of all children's hospitals' patients and *over 70% at Childrens Hospital Los Angeles and Children's Hospital Central California*
- Treat **all** children who need us -- and are often the hospital of last resort for kids, just as county hospitals are for adults. *Rady Children's Hospital in San Diego is the only Level I pediatric trauma center in an area without a county hospital.*
- One-third of all the State's CCS special care centers, serving children with the most serious illnesses, are in children's hospitals. *Lucille Packard Children's Hospital has 25 CCS special care centers.*

Children's Hospitals: The Pediatric Safety Net

- Provide the most intensive levels of pediatric care in the State – over 50% of the state's Pediatric Intensive Care Unit (PICU) beds are in children's hospitals. *Loma Linda University Children's Hospital is one of approximately 19 PICU units statewide. In addition, the Hospital has over 60 percent ICU beds, including 26 PICU, 33 cardiac ICU, and 84 NICU.*
- Receive 42% of all pediatric transfers in the State because children's hospitals are the best equipped and trained to handle seriously ill and injured kids. *Ten times the number of neonate transfers (children under the age of 29 days) are to children's hospitals*

Challenges Facing Children's Hospitals

- Capacity- More patients need care than there are beds available
- Reimbursement- Payments are inadequate, especially with shift to outpatient services
- Workforce- Shortage of specialty physicians and other clinical professionals

Capacity Expansion

- Current facilities cannot meet the growing population of children that need care – a 35% increase in the population of young children is projected over the next two decades in California.
- Children's Hospital Bond Act of 2004 (Proposition 61), approved by a 58% vote, has been essential for hospital construction, renovations, and equipment purchases. *Miller Children's Hospital in Long Beach is under construction on a much needed hospital expansion including 24 new NICU beds, and regional pediatric surgerical and imaging centers to meet the growing demand*
- By September 2008, nearly 70% of the Proposition 61 funds will have been awarded.

Children's Hospital Bond Act of 2008

- A $980 million bond for essential hospital construction, renovations, and equipment purchases will be on the November ballot
- Eight regional not-for-profit and five University of California children's hospitals will be eligible for the new capital funds
- None of the bond funds can be used for treatment, care or other operational costs

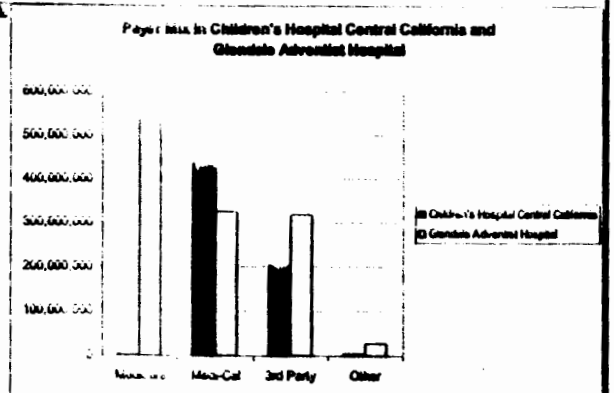
Reimbursement

- Threatened loss of DSH and supplemental payments compels consideration of alternative approaches for funding pediatric care
- Costs unique to children's hospitals such as child life, patient & family education and physician support must be "allowable" costs
- High outpatient volume – nearly 1.5 million outpatient visits per year – cannot be sustained under existing reimbursement system
- High acuity and special needs pediatric patients require more resources, including staff time
  - *Average unweighted case mix for children's hospitals is 1.23 compared to 1.06 for all hospitals statewide*

2008-09 Budget

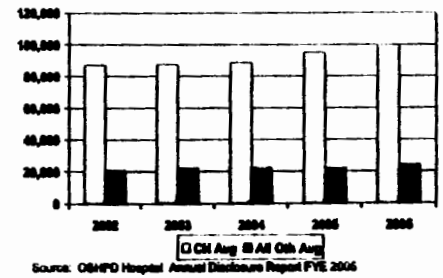
- Provider rate reductions have significant impacts on Children's Hospitals due to high-volume of Medi-Cal patients treated.
  - Hospital Outpatient Rate Reductions already adopted: at least $8.8 million
  - Anticipated Medi-Cal managed care reductions: more than approximately $6 million
  - Impact to hospitals of physician rate reduction: approximately $6 million
  - Other miscellaneous reductions: more than $1 million
- The Legislative Analyst's recommended decrease in DSH replacement funds and the diversion of Safety Net Care Pool funds will further reduce revenue for Children's Hospitals by more than $6 million.

Disproportionate Impact of Provider Rate Reductions on Children's Hospitals



Medi-Cal Outpatient Volume

Children's hospitals provide more complex and costly services to a higher volume of Medi-Cal outpatients than other hospitals



7 Children's hospitals provide four times the OP services as 392 other acute care hospitals

Budget Impact on Bottom Line

- Children's Hospitals (collectively) are operating with a -1.18% operating margin
- After implementation of budget reductions, operating margin will decline to at least -2.11%
  - Relying on reserves for operations is not sustainable.
  - Hospital operating margin is recommended to be at 5% (to ensure adequate reinvestment)

Workforce Shortages

- National shortage of pediatric sub-specialists makes competition intense
- Low Medi-Cal reimbursement is a major impediment for recruitment in California
- *Children's Hospital Central California has been recruiting for two pediatric neurologist since May 2007. As a result of these vacancies, only 21% of patients are scheduled for appointments within the first 30 days of the referral being made.*
- Children's hospitals must invest heavily in physician recruitment and support to get essential coverage for their programs and services
- Physician shortages and costs cause delays in access for both inpatient and outpatient services

Health Care Reform

- Children's Hospitals supported the Governor's efforts at health care reform and are committed to continuing to work together.
- We recognize the system is broken and must be fixed

A reformed payment structure must:

- Be stable and predictable
- Consider acuity and costs of services provided
- Raise inpatient and outpatient payments to the UPL
- Decrease administrative overhead and complexity

Public-Private Partnerships

CCS/Children's Hospital Association project to reduce blood stream infections in neonatal intensive care units (NICU)

- Year I (2007): Reduced infections by 29%; 13 CCS approved Regional NICUs participated
- Year II (2008): All 22 CCS Regional NICUs participating

The Children's Hospitals are looking for other demonstrations and collaborative opportunities with the State to improve pediatric care and decrease administrative burden

CMAC understands the unique responsibilities and challenges of California's Children's Hospitals.

We look forward to continuing to work with the Commission and staff to insure the preservation of the pediatric safety net for California's children.